

**REGULAR STATE BANKING BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

May 11, 2006

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 8:05 a.m., Thursday, May 11, 2006, by conference call.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*Office*)
Ron Braseth, Member (*Mayville*)
Bill Daniel, Member (*Bismarck*)
Lorren Henke, Member (*Office*)
Launa Moldenhauer, Member (*Bismarck*)
Roger Monson, Member (*Finley*)
Anita Quale, Member (*Watford City*)

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Secretary (*Office*)
Fred Manuel (*Detroit Lakes*)
Craig Larson (*Fargo*)
Curt Walth (*Fargo*)
Greg Honl, Eide Bailly (*Minneapolis*)

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on March 2, 2006, and the special meeting held on April 19, 2006.

It was moved by Member Moldenhauer and seconded by Member Braseth to approve the minutes as presented. The motion carried by a vote of 6 to 0, with Member Quale absent.

STARION FINANCIAL, BISMARCK – APPLICATION TO ESTABLISH AN INTERSTATE BRANCH AT 725 HEARTLAND TRAIL, MADISON, WISCONSIN

Assistant Commissioner Entringer reviewed his Memorandum dated May 3, 2006, noting that the Department received the application on April 19, 2006, and deemed complete on April 21, 2006. Notice of the application was published pursuant to the joint state and federal publication guidelines in North Dakota Administrative Code Section 13-02-05-05.1 in the *Bismarck Tribune*, Bismarck, and *The Wisconsin State Journal*, Madison, Wisconsin, on April 17, 2006. The comment period ended May 2, 2006, and no comments were received nor were there any requests for copies of the application.

Assistant Commissioner Entringer reviewed the statutory criteria for an interstate branch found in North Dakota Century Code Section 6-08.4-03 which states the State Banking Board may approve a transaction if the Board finds that the proposed transaction will not be detrimental to the safety and soundness of the North Dakota state-chartered bank; any new officers and directors are qualified and possess appropriate experience and financial responsibility; and the proposed transaction is consistent with the convenience and needs of the communities to be served by the bank in this state and is otherwise in the public interest.

Assistant Commissioner Entringer stated the North Dakota state-chartered bank must also comply with Sections 6-03-11 or 6-03-13.3, as applicable. Section 6-03-13.3 requires that the Board take into consideration the following facts to determine whether to approve the application: the convenience, needs, and welfare of the people in the community and area served; the financial strength of the bank in relation to the cost of establishing and maintaining such separate facility; whether other banks would be seriously injured by approval of the application. Assistant Commissioner Entringer reviewed the convenience and needs criterion which includes the summary of a feasibility study conducted for a proposed de novo federal savings bank. The summary found that the establishment of an interstate branch based on the development areas in the Madison metropolitan statistical area, the potential development in the area, the projected growth in

population and income, continued consolidation at larger financial institutions, and proposed management's knowledge of the market satisfy the criterion of convenience and needs. Assistant Commissioner Entringer also noted that the expected capital expenditures with regard to the interstate branch found that the bank was well within the limits of Section 6-03-07 of the North Dakota Century Code, adding that the proposed location is the current location of a loan production office approved by Commissioner Karsky on November 16, 2005. The projections in the application are for \$24,850,000 in deposits at the end of the first year, growing to \$63,250,000 at the end of the third year. Total loans at the end of the first year are estimated at \$27,301,000, and increase to \$69 million at the end of the third year. The income projections show the applicant expects to lose \$479,000 in the first year, \$2,000 in year two, and become profitable in year three at \$382,000. The projected balance sheet and income statement for the North Dakota bank alone projects a five percent growth in 2007 and 2008. The bank's historical growth for the previous four year-ends is 9.4%. The applicant is also projecting a return on average assets for the bank of 1.74% through 2008; however, the historical four-year average return on average assets for the bank is 1.95%. The bank is projecting to remain in the well-capitalized capital category for the entire projection period, and the projections appear to be well supported and conservative, satisfying the criterion found in Sections 6-08.4-03(1) and 6-03-13.3(2).

Assistant Commissioner Entringer indicated the proposed manager of the interstate branch is John Jones and his biographical information is included in the application. Mr. Jones reports extensive banking experience dating back to 1984 and is currently employed with Starion Financial in the loan production office and will be the branch president, assuming approval of the application. The exhibit also includes additional employee positions anticipated to operate the interstate branch. The criterion found in Section 6-08.4-03(2) is satisfied based on Mr. Jones' experience.

Assistant Commissioner Entringer indicated with respect to other banks and facilities in the trade area, the applicant notes there are 19 banks with 32 offices in the primary market area. The feasibility study which was conducted also notes that the interstate branch/facility would not seriously impact the banks within the trade area. Also, no opposition was noted as a result of the two notices published, which satisfies the criterion found in Section 6-03-13.3(3).

Chairman Karsky asked Mr. Walth if he would like to review the process the bank has gone through the past year to get this location operational. Mr. Walth asked Fred Manuel to review the process.

Mr. Manuel indicated this location will be the first time a North Dakota bank is branching into Wisconsin, so the applicant is breaking new ground with this application. Mr. Manuel asked Chairman Karsky and Assistant Commissioner Entringer if written approval is needed from Wisconsin or is the fact that they did not respond sufficient.

Chairman Karsky indicated because of the Nationwide Interstate Cooperative Agreement the only approval necessary is from the home state, which is this Department; therefore, any communication with the State of Wisconsin would go through this Department.

Mr. Manuel stated per FDIC requirements the applicant has to comply with filing requirements for the host state and by going through the Department that requirement is met. Mr. Manuel noted the FDIC has granted its approval of the application by letter dated May 4, 2006, a copy of which was faxed to the Department. The FDIC approval was subject to state approval.

Mr. Manuel continued that initially the bank wanted to charter a bank in Wisconsin and found out it is basically illegal for an out-of-state entity to charter a bank in the State of Wisconsin nor could they branch into Wisconsin from an out-of-state bank. Mr. Manuel stated that Wisconsin was fairly protective at the time and so the bank looked at the federal savings bank charter and found that the OTS would allow them to charter a federal savings bank; however, Mr. Manuel continued the bank knew interstate branching was forthcoming, although there was no specific timeframe as to when the law might be approved. Mr. Manuel stated because of that the bank made the decision to proceed with a federal savings bank charter which was a fairly extensive application, adding that is why more information is provided in this application compared to a typical branch application. During the application process for the federal savings bank charter, Wisconsin passed their interstate branching law, and so at that time Starion Financial withdrew its application for a charter and submitted an application for an interstate branch. Once the decision was made to file this application there had to be a decision made as to whether or not Wisconsin law was reciprocal with North Dakota law, which has resolved to the affirmative via a letter from Mike Mach, Director of the banking division in Wisconsin.

Mr. Manuel indicated the bank will remain well capitalized and in fact will be a fairly small player in the market, anticipating less than 2% of the market, if the projections are attained. Mr. Manuel noted that Mike Jones has significant banking experience and was the proposed CEO for the thrift the bank was planning to charter. Mr. Jones is familiar with the Wisconsin market, which is a good fit.

Mr. Larson indicated that Mr. Jones brings some very unique qualities to the organization, not only with his recent experience in a large corporate organization with very solid credit background; he also has experience with starting banks in the market. Relative to the board of directors, Mr. Larson indicated that because they were initially filing an application for a thrift charter, they were looking at a legal board. When the decision was made to switch to the interstate branch application, the bank did talk to one of the local Wisconsin leaders and invited that individual to serve on their North Dakota board of directors. Mr. Larson indicated they believe it is critical to have local representation from Wisconsin on their North Dakota legal board of directors, and the individual that has accepted comes from a local law firm; however, he is not a lawyer by trade, but is the chief operating officer for the law firm, as well as having 23 years of bank experience. Mr. Larson indicated they have opted to create a local advisory board in Madison and initially they got together with Harry Argue, the former Executive Director of the North Dakota Bankers Association, who is now the head of the Wisconsin Graduate School of Banking, and because of the shift in focus, Mr. Argue has agreed to serve as chairman of the bank's Wisconsin advisory board. Mr. Larson indicated four people are interested in serving on the advisory board and they are looking at having eight on the board, which will ultimately help the bank understand the Wisconsin market.

Assistant Commissioner Entringer noted it is the opinion of the Department that the applicant has met the criterion set forth in Sections 6-03-13.3 and 6-08.4-03 of the North Dakota Century Code, and would recommend approval of the application.

It was moved by Member Braseth and seconded by Member Daniel to approve the application by Starion Financial, Bismarck, to establish a de novo interstate branch at 725 Heartland Trail, Madison, Wisconsin, and to authorize Chairman Karsky to sign the Order on behalf of the Board.

Chairman Karsky noted an interesting fact is the North Dakota legal lending limit will apply in Wisconsin, adding there does not appear to be any consumer

protection laws. Assistant Commissioner Entringer noted he had spoken to Wisconsin Director Mach and there is a consumer act that the bank will have to comply with. Mr. Walth indicated that is correct and they had in fact applied and received approval by the Wisconsin Division of Banking.

Mr. Walth stated the target opening date is June 15, 2006, and the only item they are currently waiting for is a teller line.

Chairman Karsky indicated once the interstate branch opens for business the Department will cancel the loan production office.

The motion was unanimously carried.

Messrs. Walth, Larson, and Manuel left the conference call at 8:28 a.m.

CHANGE OF CONTROL APPLICATION BY CORNERSTONE HOLDING COMPANY, INC., FARGO, TO ACQUIRE 100% OF THE COMMON STOCK OF CITIZENS, INC., ENDERLIN

Assistant Commissioner Entringer reviewed his Memorandum dated May 1, 2006, noting that the application was received on March 22, 2006, and additional information was requested on April 4, 2006. The additional information was submitted on April 10, 2006, and the application was deemed complete. Notice of the proposed change of control was published in the *Ransom County Gazette*, Lisbon, on April 17, 2006, and the comment period ended April 26, 2006. No comments have been received, although there was one request for a copy of the application.

Assistant Commissioner Entringer noted his Memorandum included the approval criteria set forth in Section 6-08-08.1(4) of the North Dakota Century Code. The proposed acquisition will result in Cornerstone Holding Company, Inc., acquiring 100% of Citizens, Inc., Enderlin. Cornerstone Holding Company, Inc., would thereby indirectly acquire 100% of the Citizens State Bank, Enderlin. The funding for the transaction is discussed in the application and is a combination of debt and personal investment. The pro forma balance sheet for the holding company shows a 98% debt to equity position initially. The application includes a pro forma projected balance sheet, tax benefit and cash flow through 2017 for the holding company, and also includes a projected balance sheet and income

statement for the “combined facility”, the “Enderlin facility”, and the “Fargo facility”. The Fargo facility is referenced in the business plan as a preliminary plan for expansion and at this time Enderlin does not have a facility in Fargo. The only capital ratios included in the projection are for the combined facility, although the Enderlin facility does show continued equity growth which appears to keep pace with the asset growth. The primary capital ratio as of December 31, 2017, is in excess of 18% and according to the “combined facility” projected balance sheet, the applicant is projecting to remain well-capitalized throughout the projection period. The assumptions used in all the projections appear reasonable.

Assistant Commissioner Entringer indicated the proposed changes in the officers and directors of the Citizens State Bank are set forth in Exhibit 6. The only individual the Department is familiar with is Les Nesvig; however, the confidential Exhibits E & F contain Interagency Biographical Information on the owners and senior management. The resumes of the proposed executive officers are found in confidential Exhibit D, and while the Department is not familiar with some of the senior management officials they do indicate significant banking experience.

Mr. Honl indicated this process was a fairly lengthy process. The six individuals that are acquiring the holding company initially started out looking to charter a de novo bank in Fargo and when the Enderlin bank became available for sale they submitted a bid and were the successful bidders. Mr. Honl noted the six investors put in cash to cover a little over 51% of the purchase price with the remainder to be borrowed from the Bank of North Dakota. As the application indicates, the investors have hired three bank officers from Bremer, as well as Les Nesvig who will be the interim president, and also hired Dave Felch to be the chief financial officer. Currently the three individuals from Bremer and Mr. Felch are employed as consultants for Cornerstone and once the acquisition is complete, they will become officers of the bank.

Mr. Honl discussed comments from the FDIC relative to the application, noting that these comments had already been identified by Assistant Commissioner Entringer. Mr. Honl indicated the comments from the FDIC were relative to some lending transactions that posed potential Regulation O concerns and those concerns have been eliminated to the satisfaction of the FDIC and the Department. Mr. Honl indicated the remaining comments by the FDIC dealt with the three Olson brothers who are co-owners of a jewelry store in Fargo, noting that the FDIC wanted more financial information primarily on the jewelry store to support the

contention of the cash flow indicated in the application for these individuals. Mr. Honl indicated once that information was provided there were no further comments from the FDIC.

Mr. Honl pointed out because of the additional questions raised by the FDIC the Federal Reserve removed delegated authority as a result of this the Federal Reserve had additional questions also; Mr. Honl indicated all of the questions have been satisfied. Primarily the questions dealt with the six investors and making sure that they are educated with regard to banking law. Mr. Honl indicated the Fed is on target for a May 23, 2006, approval date.

Assistant Commissioner Entringer noted the only individual from the six investors sitting on the board of the bank is Brent Olson and one individual who is a chief financial officer for one of the investor's companies who has previous experience with Eide Bailly in the accounting profession. The remainder of the bank's board of directors is comprised of the individuals from Bremer and Mr. Nesvig.

Assistant Commissioner Entringer indicated it is the Department's recommendation to approve the change of control application.

Member Henke asked how long Mr. Nesvig is going to be president, and Mr. Honl indicated his contract is for one year. At the end of that one-year period Mr. Freier's experience will be evaluated to see if he is ready to take over as president. If Mr. Freier becomes president, Mr. Nesvig would probably stay on the board.

It was moved by Member Braseth and seconded by Member Moldenhauer to approve the change of control application of Cornerstone Holding Company, Fargo, to acquire 100% of the voting shares and merger of Citizens, Inc., Enderlin, and indirectly acquire Citizens State Bank, Enderlin. The motion was unanimously carried.

Mr. Honl left the conference call at 8:41 a.m.

**WESTERN STATE BANK, DEVILS LAKE – TO CLOSE FACILITY
LOCATED IN FARGO**

Chairman Karsky reviewed President Brad Jacobson's letter dated March 9, 2006, indicating the reason the bank is submitting the application is their desire to relocate to a higher traffic area with better visibility and added convenience for the bank's customers. In the interim the bank intends to serve its customers from the West Fargo location at 755 13th Avenue until the new site is ready for occupancy in late 2006. Western State Bank intends to submit a separate application for approval to open a new facility in Fargo which will be located within two miles of the current facility.

Chairman Karsky indicated the legal notice was published in the *Fargo Forum* on March 20 and 27, 2006, and Mr. Jacobson indicated a copy of the affidavit of publication will be provided once it is obtained.

It was moved by Member Henke and seconded by Member Monson to approve the application from Western State Bank, Devils Lake, to close its facility located at 2000 44th Street SW, Fargo, and to authorize Chairman Karsky to sign the Order on behalf of the State Banking Board. The motion was unanimously carried.

ORDER TO REMOVE JULIE D. WESTEMEIER AS AN OFFICER, DIRECTOR, AND EMPLOYEE OF A STATE-CHARTERED FINANCIAL INSTITUTION

Assistant Commissioner Entringer indicated that Ms. Westemeier pleaded guilty to theft of property in violation of North Dakota Century Code Section 12.1-23-02, and essentially she was convicted of embezzling money from a North Dakota state-chartered bank, which she has already repaid. Assistant Commissioner Entringer indicated Ms. Westemeier reimbursed the bank \$28,000 which is the amount she embezzled in addition to approximately \$5,000 which was the cost of a forensic accountant to come in and verify the amount embezzled. Assistant Commissioner Entringer indicated Ms. Westemeier has pleaded guilty and has been convicted, and according to Section 6-01-04.1 the Department can issue a permanent order prohibiting the individual from participating in the conduct of the affairs of a financial corporation or institution and from any further participation in the financial corporation or institution's affairs when they have been charged with a felony in state or federal court involving dishonesty or breach of trust. Assistant Commissioner Entringer indicates the Order takes effect upon service to Julie D. Westemeier.

Chairman Karsky stated that the State Credit Union Board will also sign an identical Order and the Commissioner is empowered to sign an Order prohibiting the individual from serving as an officer or employee of a collection agency, money broker, or deferred presentment service provider.

It was moved by Member Monson and seconded by Member Quale to approve the Order Removing Julie D. Westemeier as an officer, director, and employee of a state-chartered financial institution, and authorizing Chairman Karsky to sign the Order on behalf of the Board. The motion was unanimously carried.

Member Quale inquired as to how a bank would find out about these removal actions. Assistant Commissioner Entringer indicated you could search the federal regulators' websites for their removal actions; however, the Department's website does not provide this information. Assistant Commissioner Entringer indicated he had given that some thought this morning and the Department will look into scanning those removal actions and putting them on the Department's website in the future.

ARTICLES OF AMENDMENT

Assistant Commissioner Entringer indicated American State Bank & Trust Company of Williston, Williston, and First Security State Bank, Underwood, have submitted Articles of Amendment to have perpetual existence.

It was moved by Member Moldenhauer and seconded by Member Braseth to approve the Articles of Amendment to provide for perpetual existence for American State Bank & Trust Company of Williston, Williston, and First Security Bank, Underwood. The motion was unanimously carried.

ITEMS TO BE NOTED

Department of Financial Institutions

Articles of Amendment submitted by American State Bank and Trust of Dickinson, Dickinson, to change its number of directors from not less than 5 nor more than 9, to not less than 3 nor more than 25.

Comptroller of the Currency

Received 2-27-06 and approved 4-4-06, Great Plains National Bank, Belfield, to open branch at 119 First St SW, LaMoure.

Approved 3-2-06, Bremer Bank, National Association, Fargo, to open branch at 1204 14th Ave N, Fargo.

2006 ANNUAL ASSESSMENT POLICY FOR STATE-CHARTERED BANKS AND TRUST COMPANIES

Chairman Karsky indicated each year the State Banking Board has to review and approve the assessment for the bank division, noting that included in the Memorandum there are some expense descriptions for the banking division and their allocation, including administrative salaries and benefits which notes salaries are allocated as follows: Commissioner 70%; Assistant Commissioner 40%; Chief Examiner – Banks 100%; Business Manager 70%; Administrative Assistant 75%, along with other operating expenses which are attributable to the bank supervision.

Chairman Karsky noted on the attached Memorandum from Joan Becker, Director of Administration, the projected revenue and expenses through June 30, 2006, includes actual numbers such as the carry forward amount, the assessments, and the Bank of North Dakota assessment, with the rest of the income and expenses being estimated through June 30, 2006. The Department is projecting a carryover balance on June 30, 2006, of \$338,912. The projections for the year ending June 30, 2007, are based on assessments of bank assets as of December 31, 2005, and although you will note an increase in the actual dollar of assessments, you should be reminded that the Department gave a 25% credit in 2005 which reduced the actual income from assessments.

Chairman Karsky indicated due to the Department adjusting salary structures for examiners the amount has increased and therefore the Department will not be able to give an assessment credit in June 2006; however, the assessment formula that was adopted when the regulatory fund was first established in 1989 will again be used for this period. Chairman Karsky indicated the Department is proud to point out the bank assessments have not been increased to fund the banking division.

Member Braseth inquired if the salaries included any open positions, and Chairman Karsky indicated there are currently two open positions and we are projecting that those positions will be filled throughout the remainder of the biennium.

It was moved by Member Monson and seconded by Member Daniel to approve the 2006 Assessment Policy for State-Chartered Banks and Trust Companies. The motion was unanimously carried.

The Board went into closed session at 9:06 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary